

PRIVATIZING SOCIAL SECURITY: WHAT'S AT STAKE FOR WOMEN

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■ Social Security is the foundation of women's retirement security.

- **Women rely more on Social Security income than men.** Almost 45 percent of all nonmarried women 65 and older get 90 percent or more of their income from Social Security, compared to only 35 percent of comparable men.¹ Almost 60 percent of older nonmarried women of color receive 90 percent or more of their income from Social Security.²
- **As women get older, they rely even more on Social Security.** Among all women aged 65-75, one-quarter rely on Social Security for 90 percent or more of their income, whereas more than 40 percent of women over 85 rely on Social Security for 90 percent or more of their income.³
- **Women reach retirement with smaller pensions and fewer other assets than men do.** Just over one-fourth of women (28%) but nearly half of men (45%) 65 and older received pension benefits in 2003,⁴ and the median amount of men's pension income was twice that of women (\$12,000 vs. \$6,000, respectively).⁵
- **Women generally live longer than men.** A woman who reaches 65 years old can expect to live to about 85, while a 65-year-old man can expect to live to about 82.⁶ Having reached age 65, African American women can expect to live 18 more years, about two years longer than white men,⁷ and Hispanic women can expect to live 23 more years,⁸ longer than either white women or men. Women make up 57 percent of all adult Social Security beneficiaries,⁹ but they constitute 71 percent of beneficiaries age 85 and older.¹⁰
- **Without Social Security, over half of all elderly women would be poor.**¹¹ In 2000, Social Security reduced the number of poor elderly women from 8.9 million to 1.8 million, and the number of poor elderly men from 5.4 million to 749,000.¹²

■ Especially for women, Social Security is much more than a worker retirement program.

- **Social Security's protections for workers' spouses and children when workers are disabled, retire, or die are crucial for women and their families.** For men, Social Security is, overwhelmingly, a worker retirement program. Eighty percent of adult male recipients of Social Security receive benefits solely as retired workers.¹³ In contrast, 34 percent of adult female beneficiaries receive benefits purely as retired workers.¹⁴ More than half of all women receiving Social Security – but only three percent of men – receive benefits as the family member of a worker.¹⁵ Looked at another way, 94 percent

of adults who receive benefits as the relative of a disabled, deceased, or retired worker are women.¹⁶

- **Social Security's spousal benefits are and will continue to be important to future generations of women.** Social Security pays benefits to spouses of retired workers equal to half of the retired worker's benefit, and widow(er)'s benefits equal to the late worker's benefit, if these are higher than their own benefit. In retirement, many women (62% of women aged 62 or older) rely on spousal benefits alone or as a supplement to their own retired worker benefits.¹⁷ Women today are working more and earning more than past generations of women, but their lifetime earnings will continue to be less than men's. While more women in the future will be eligible to receive Social Security benefits based on their own work histories, Social Security Administration actuaries project that in 2070, 40 percent of women still will receive higher benefits based on their husband's earnings record at some time during their lives.¹⁸
- **Social Security is also a disability insurance program.** One in 10 adult women who receive Social Security are collecting benefits by virtue of being a disabled worker.¹⁹ The disability component of Social Security is particularly important for African American women because they have a higher rate of disability than whites of either sex.²⁰ While African Americans make up 9 percent of all adult female beneficiaries,²¹ African American women constitute 17 percent of female disabled worker beneficiaries.²²
- **Social Security provides important benefits to children, especially children of color.** Nearly four million children receive Social Security benefits as dependents of deceased, disabled, or retired workers,²³ and 5.4 million children receive some of their family income from Social Security.²⁴ These children's benefits are especially important to families of color. Nearly one-fifth (18%) of African American recipients of Social Security benefits are children, compared to just 7 percent of white beneficiaries.²⁵ In 1998, Social Security lifted about one million children out of poverty.²⁶
- **Social Security provides life insurance protection to young families.** For the average wage earner and family, Social Security provides the equivalent of a \$400,000 life and \$350,000 disability insurance policy.²⁷
- **In addition to disability benefits and family benefits, Social Security contains many valuable features that boost retirement security for women.**
 - **Social Security provides guaranteed, predictable benefits that cannot be outlived.** Traditional-style pensions — the kind that provide lifetime annuity payments that are insured under federal law — are increasingly being replaced with 401(k)-style investment accounts that put all of the investment risk on the worker. Personal savings also can contribute to retirement income, but they too place all of the investment risk on the individual. And with both types of savings, when the money runs out, it's gone. Social Security is the one component of retirement income that is predictable and guaranteed never to run out, an invaluable feature for women who tend to live longer and have fewer assets than men.

- **Social Security's progressive benefit formula provides women, and others who have worked for low wages, with benefits that replace a higher percentage of their pre-retirement earnings than higher earners receive.** Social Security replaces about 57 percent of the average lifetime earnings for low-wage workers, compared to replacing about 30 percent of the earnings that high-wage "maximum earners" had been making.²⁸ Social Security's progressive benefit formula will continue to be important to future generations of women. The wage gap has narrowed over time, but women working full-time, year-round still earn only 76 cents for every dollar earned by men.²⁹
- **Social Security's annual cost-of-living adjustments help prevent erosion of purchasing power.** Inflation is of particular concern to women because of their longer life expectancies. Over time, inflation can dramatically erode the value of a fixed monthly payment. For example, even assuming a relatively low 2.5 percent inflation rate, a 65-year-old woman who purchased an annuity would see that monthly payment lose 40 percent of its purchasing power by the time she reached 85.³⁰

■ **Trading Social Security's guaranteed benefits and family protections for privatized investment accounts would be an especially bad deal for women.**

Social Security has some long-term financing challenges ahead, but it is certainly not broke. Even with no changes at all, Social Security has enough reserves to keep paying 100 percent of promised benefits until about 2042 according to the Social Security trustees,³¹ and until 2052 according to the nonpartisan Congressional Budget Office.³² And after that, the money coming in from payroll taxes will be enough to cover about three-fourths (73%-80%)³³ of promised benefits. There are many options available for closing this shortfall: just the cost of the President's tax cuts for the most affluent one percent is about the same size as the Social Security shortfall.³⁴ However, President Bush and his supporters in Congress have proposed privatizing Social Security by diverting a portion of Social Security payroll tax dollars already needed to pay promised benefits away from the Social Security Trust Fund and into private investment accounts. Privatizing Social Security would worsen, not improve, Social Security's financial situation and jeopardize the features of the program that make it especially valuable to women.

- **Privatizing Social Security would require deep cuts in benefits, even for those who choose not to participate in private accounts, and reduce total retirement income.** The privatization proposal favored by the Administration would require deep cuts in Social Security's guaranteed benefits by more than 45%³⁵ for all future beneficiaries, including disabled workers and their families, widows, and orphans and other child beneficiaries. These cuts would apply across the board, even to those who chose not to participate in private accounts; the Social Security benefits of those with a private account would be cut further.³⁶ Moreover, the proceeds from private accounts would not be enough to make up the difference, even for those able to work and contribute until retirement. The Congressional Budget Office projects that, for a worker born in the 1970s, the *combination* of Social Security benefits and private account proceeds would provide just 77% of the income due under the current system; for children born in this decade, the combination would provide just 55% of current benefit levels.³⁷ Since women have so little income other than Social Security to depend on, cuts in benefits would be especially devastating to them.

- **Privatization would endanger all types of Social Security benefits, including disability and survivor benefits.** Social Security is a comprehensive, integrated insurance system in which different types of benefits are calculated in similar ways, based on a central formula, modified for particular circumstances. This means that cuts in retirement benefits cannot be made without unraveling Social Security's disability and survivors' insurance protections as well, a point confirmed by the President's Social Security Commission.³⁸
- **In a privatized system, the amount of benefits would be uncertain, and benefits could easily run out.** In contrast to Social Security's defined, guaranteed benefits, the proceeds of private accounts are directly related to the amount of contributions going into the account, and the return on investment, minus the administrative costs that are likely to consume a higher portion of small than large accounts. Lower-earning workers, such as women, have less to invest, and less that they can afford to put at risk, producing lower balances that will get no help from a progressive benefit formula. A worker's account balance would also be affected by the timing of retirement; a down market may mean having to work many years longer than planned or having to take a large loss in value. Finally, privatization also means there is no more lifetime guarantee; when the account is gone, it's gone. Lifetime annuities can be purchased. But converting to an annuity makes a woman's lifetime retirement benefits extremely sensitive to the state of the stock market and interest rates at the time of the conversion. And private annuities, unlike Social Security, base monthly payments on gender, providing women with lower lifetime benefits even when their investment is equal to men's.
- **Privatization means spousal benefits and protections will be up in the air.** Because benefits for spouses, surviving spouses and divorced spouses are based on the worker's core Social Security benefit, cuts in that core benefit, as would occur with the proposed change in the formula from "wage-indexing" to "price-indexing,"³⁹ means that benefits for spouses, surviving spouses and divorced spouses would also be cut. Surviving spouses could theoretically inherit the proceeds of private accounts, but in the event a worker dies young before the account has had time to accumulate, that tiny inheritance would be cold comfort to the worker's family. A study by the National Urban League, for example, found that a typical African American man dying in his thirties would only have enough in his private account to cover less than two percent of the survivor's benefits now provided by Social Security.⁴⁰ Benefits for divorced spouses also would be uncertain. Right now, after a marriage of 10 years or more, divorced spouses and divorced widows *automatically* receive the same benefits that married spouses and widows receive, with no corresponding reduction in the benefits of the worker or later spouses. In a privatized system, however, the core benefit would be cut, and the couple would have to struggle over the division of limited account assets in divorce court. And if a privatization plan allows workers to take an account as a lump sum, bequeath it to anyone they choose, or buy annuities without survivor benefits for a spouse, there could be nothing to help a widow supplement a greatly reduced Social Security benefit.
- **Diverting revenues out of the trust funds and into private accounts would place benefits for current and near retirees in jeopardy.** The leading privatization proposal

calls for nearly two-thirds of the payroll taxes employees now pay and going into Social Security to pay benefits for current retirees to be diverted into private investment accounts. This would mean that the system would run short of money much earlier: at the beginning of 2002, the Social Security Actuary estimated that a plan such as the one the President is promoting would cause Social Security to run short of money fifteen years earlier than if nothing was done,⁴¹ when today's 60-year-olds will be in their mid-80s. In fact, the President's model would take so much money out of the system immediately that it would accelerate the date when the interest earned by the trust fund would start being tapped to pay benefits, currently estimated at 2018, to 2006 – *next year!*⁴²

Strengthening and improving Social Security and other programs is feasible, if privatization schemes do not divert trillions of dollars into private accounts and we make it a priority. The long-term cost of the Bush tax cuts is three to five times as large as the long-term shortfall in Social Security,⁴³ and the benefits from these tax cuts go overwhelmingly to the wealthiest 5% of taxpayers,⁴⁴ and the largest 2% of estates.⁴⁵ Reconsidering the President's skewed, unaffordable tax cuts would enable us to strengthen and improve Social Security and address other unmet national needs.

ENDNOTES

¹ Social Security Administration, *Income of the Population 55 or Older, 2002*, Table 6.B2 (Forthcoming). The term "nonmarried" refers to any person who is not presently married, including those who are divorced, widowed, or have never been married.

² *Id.* at Table 6.B4.

³ Kathryn Porter, Kathy Larin, & Wendell Primus, *Social Security and Poverty among the Elderly: A National and State Perspective*, Table 12, at 31 (Center on Budget & Policy Priorities, 1999).

⁴ Ken McDonnell, *Retirement Annuity and Employment-Based Pension Income*, 26 EBRI Notes 1 (Feb. 2005), available at <http://www.ebri.org/EBRI.Feb05.Pens.pdf> (last visited Jan. 13, 2005).

⁵ *Id.* at 4-5, Figures 1 and 2.

⁶ National Center for Health Statistics, Deaths: Preliminary Data for 2002, 52 *National Vital Statistics Report* 25, Table 6 (Feb. 11, 2004), available at http://www.cdc.gov/nchs/data/nvsr/nvsr52/nvsr52_13.pdf (last visited Jan. 14, 2005).

⁷ *Id.*

⁸ U.S. Census Bureau, Current Population Reports P25-1130, *Population Projections of the United States by Age, Sex, Race, and Hispanic Origin: 1995 to 2050*, at B-3, Table B-2, Appendix B (Feb. 1996), available at <http://www.census.gov/prod/1/pop/p25-1130/p251130.pdf> (last visited Jan. 14, 2005). Unlike figures calculated by the National Center for Health Statistics, see note 6 *supra*, the life expectancy figures for Hispanics are based on Census Bureau *projections* for the year 2002.

⁹ Social Security Administration, *Annual Statistical Supplement, 2003*, Table 5.A16 (NWLC calculations).

¹⁰ *Id.*, at Table 5.A10 (NWLC calculations).

¹¹ Social Security Administration, *Income of the Population 55 and Older, 2000*, Table 8.3 (Feb. 2002).

¹² *Id.* (NWLC calculations).

¹³ Social Security Administration, *Annual Statistical Supplement, 2003*, Table 5.A16 (NWLC calculations).

¹⁴ *Id.*, NWLC calculations based on Tables 5.A14 & 5.A16. This 34% figure is a slight overstatement of the number of women who collect "purely as retired workers," since the figure also includes a very small number of women, aged 62-64, who collect as disabled workers based purely on their own work histories.

¹⁵ *Id.*, at Table 5.A16 (NWLC calculations).

¹⁶ *Id.* (NWLC calculations).

¹⁷ *Id.* at Table 5.A14 (NWLC calculations).

¹⁸ Social Security Administration, Office of the Actuary, "Distribution of Female Social Security Beneficiaries Age 65 and Over, by Type of Benefit" (Sept. 17, 1998).

- ¹⁹ Social Security Administration, *Annual Statistical Supplement, 2003*, Table 5.A16 (July 2004).
- ²⁰ Lita Jans and Susan Stoddard, U.S. National Institute on Disability and Rehabilitation Research, *Chartbook on Women and Disability in the United States*, Data Tables, Figure 5 (1999), available at http://www.infouse.com/disabilitydata/womendisability_datatables.html (last visited Jan. 14, 2005).
- ²¹ Social Security Administration, *Annual Statistical Supplement, 2001*, Table 5.A6 (NWLC calculations).
- ²² *Id.* at Table 5.A7 (NWLC calculations).
- ²³ *Id.* at Table 5.A6.
- ²⁴ Catherine Hill & Virginia Reno, Children's Stake in Social Security, Social Security Issue Brief No. 14 (National Academy of Social Insurance, 2003).
- ²⁵ *Id.* (NWLC calculations).
- ²⁶ Valerie Rawlston, *The Impact of Social Security on Child Poverty*, at 3 (National Urban League, May 2000).
- ²⁷ U.S. Social Security Administration, "Present Values of Benefits to Illustrative Survivors and Disability Cases," Memorandum to Stephen Goss, Chief Actuary (2001).
- ²⁸ Social Security Administration, *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* 185, Table III.B.5 (2000), available at <http://www.ssa.gov/OACT/TR/TR00/index.html> (last visited Jan. 14, 2005).
- ²⁹ Census Bureau, *Income, Poverty and Health Insurance in the United States: 2003* (Aug. 2004).
- ³⁰ NWLC calculation.
- ³¹ Social Security Administration, *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, at 2, 8 (March 23, 2004), available at <http://www.ssa.gov/OACT/TR/TR04/tr04.pdf> (last visited Jan. 13, 2005) [hereinafter *2004 Trustees Report*].
- ³² Congressional Budget Office, *The Outlook for Social Security* viii (June 2004), available at <http://cbo.gov/ftpdocs/55xx/doc5530/06-14-SocialSecurity.pdf> (last visited Jan. 13, 2005) [hereinafter CBO Outlook].
- ³³ *2004 Trustees Report*, *supra* note 31, at 8; CBO Outlook, *supra* note 32, at viii.
- ³⁴ Richard Kogan & Robert Greenstein, *President Portrays Social Security Shortfall as Enormous, But His Tax Cuts and Drug Benefit Will Cost at Least Five Times as Much* 3 (Center on Budget and Policy Priorities, Jan. 10, 2005), available at <http://www.cbpp.org/1-4-05socsec.pdf> (last visited Jan. 14, 2005) [hereinafter *President Portrays Shortfall*].
- ³⁵ Stephen Goss, Chief Actuary, Social Security Administration, Memorandum to Daniel Patrick Moynihan and Richard Parsons, Co-Chairs, President's Commission to Strengthen Social Security, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," at 75, 78 (Jan. 31, 2002).
- ³⁶ *Id.*
- ³⁷ *Id.*
- ³⁸ See, e.g., President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans: Report of the President's Commission*, at 149-150 (Dec. 21, 2001).
- ³⁹ See Robert Greenstein, *So-Called "Price Indexing" Proposal Would Result in Deep Reductions over Time in Social Security Benefits* (Center on Budget and Policy Priorities, Jan. 11, 2005), available at <http://www.cbpp.org/12-17-04socsec.pdf> (last visited Jan. 14, 2005).
- ⁴⁰ Maya Rockey Moore, National Urban League, "Social Security Reform and African Americans: Debunking the Myths" 4 (2001).
- ⁴¹ Stephen Goss, Chief Actuary, Social Security Administration, Memorandum to Daniel Patrick Moynihan and Richard Parsons, Co-Chairs, President's Commission to Strengthen Social Security, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," at 22 (January 31, 2002), available at http://www.commtostrengthensocsec.gov/reports/Final_report.pdf (last visited Jan. 13, 2005).
- ⁴² Jason Furman, *Does Social Security Face a Crisis in 2018?* at 2 (Center on Budget and Policy Priorities, Jan. 11, 2005), available at <http://www.cbpp.org/1-11-05socsec.pdf> (last visited Jan. 13, 2005).
- ⁴³ *President Portrays Shortfall*, *supra* note 34, at 2.
- ⁴⁴ Citizens for Tax Justice, "Kennedy Tax Freeze Keeps Bush Tax Cuts for All But Richest," January 22, 2002, and NWLC calculations based on David Campbell and Michael Parisi, "Individual Income Tax Rates and Tax Shares, 1998," Vol. 20, No. 4 *Statistics of Income Bulletin*, Table 1 (Spring 2001).
- ⁴⁵ Joint Committee on Taxation, "Present Law and Background on Federal Tax Provisions Related to Retirement Savings Incentives, Health and Long-term Care, and Estate and Gift Taxes," June 16, 1999, available at <http://www.house.gov/jct/x-29-99.htm> (last visited Jan. 14, 2005).